



Fact Sheet

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April 13, 2010

Available Online: dpc.senate.gov

On Your Side: Democrats Are Delivering Tax Cuts for the Middle Class

“[F]ederal taxes are very considerably lower by every measure since Obama became president.”

- Bruce Bartlett, Reagan Domestic Policy Advisor, 3/19/10¹

Every year, as Americans file their taxes that will fund vital priorities for our country, from Social Security to homeland security, we are reminded that America’s middle class needs dollars in their own pockets to pay for vital priorities, too – for housing, educational expenses, heat, groceries, and health care. That’s why Democrats continue to fight to ensure that hard-working middle-class families and individuals receive the tax relief they need now more than ever to recover from the most severe recession this country has faced since the Great Depression. Last year, Democrats provided meaningful tax cuts to hardworking middle-class families through the *American Recovery and Reinvestment Act (P.L. 111-5)*. We will continue to fight to provide urgently needed tax relief for middle-class families so that they can fully reap the benefits of their hard work and stabilize their families’ finances.

This stands in stark contrast with the record of the Republicans, who tried to sell their tax breaks over the past decade as beneficial to all Americans, when in reality they gave away nearly \$3 trillion in tax cuts to the wealthiest 20 percent of U.S. households.² They served up these tax cuts to the nation’s wealthiest households at the very moment that they launched an expensive war in Iraq, contributing substantially to today’s deficits and debt.

Who is on your side? The contrast between Republican priorities and Democratic priorities could not be more clear. Under the Republican approach, the richest would pay less and the middle class would pay more. Under the Democratic approach, hardworking middle-class families and individuals receive the tax relief they need to recover from the economic downturn, make ends meet, and look forward once more to a future in which they might prosper.

In the past year, Democrats have provided 98 percent of Americans with tax cut. A new study shows that the middle-class tax cuts included in the *Recovery Act* saved taxpayers an average of \$1,158 on their tax returns this year. And every single working and middle-class family and individual (in the bottom 80 percent of income earners) received a tax cut. This analysis counts the new “Making Work Pay” tax credit (available to more than 94 percent of all working families and individuals); changes to the child credit; an increase in the earned income

tax credit; relief from the Alternative Minimum Tax; and a new, partially refundable education credit. [Citizens for Tax Justice, [4/13/2010](#)] The *Recovery Act* also included:

- A refundable home buyer credit - Modification of a refundable tax credit that was equivalent to an interest-free loan equal to 10 percent of the purchase of a home (up to \$7,500) by first-time home buyers. The *Recovery Act* eliminated the re-payment obligation for taxpayers that purchase homes after January 1, 2009, increased the maximum value of the credit to \$8,000, removed the prohibition on financing by mortgage revenue bonds, and extended the availability of the credit to homes purchased before December 1, 2009;
- Energy efficiency and renewable energy incentives - Under the *Recovery Act*, taxpayers are eligible for up to \$1,500 in tax credits for making energy-efficiency improvements to their homes, such as adding insulation and installing energy efficient windows;
- New vehicle purchases - Taxpayers can deduct the state and local sales taxes they paid for new vehicles purchased from February 17, 2009 through December 31, 2009 under the vehicles sales tax deduction. In states that don't have a sales tax, some other taxes or fees may be deducted;
- Temporary suspension of taxation of unemployment benefits - A temporary suspension of the federal income tax on the first \$2,400 of unemployment benefits per recipient in taxable year 2009. The average unemployment benefit is approximately \$300 per month; and
- Expansion of 529 education plans - The list of qualified education expenses eligible to be funded from "529" tax-advantaged savings plans was expanded to include computers and computer technology.

Senate Democrats recently passed a new bill that would provide even more tax relief for hard-working middle-class Americans who depend on these tax cuts to plan their budgets and determine how much money they can save or invest. The *American Workers, State, and Business Relief Act (H.R. 4213, amended)*, which the Senate passed in March, would extend several tax provisions that expired at the end of 2009, providing much needed tax relief for individuals and businesses during this time of economic uncertainty.

This includes tax cuts:

- For teachers who buy classroom supplies out of their own pockets, so they can continue to provide quality education for tomorrow's workforce;
- To help families afford college tuition, so our young people can get the world-class education they deserve without going broke;
- To help families make homes more energy efficient and save money on utility bills while supporting jobs in the growing energy sector; and
- To allow taxpayers to continue to deduct state sales tax on their federal tax returns, so families can continue to use the tax deductions they count on.

Democrats reinstated fairness in the tax code by closing loopholes for corporations and the wealthy. The *Hiring Incentives to Restore Employment Act (P.L. 111-147)* included two fiscally responsible, revenue-generating provisions:

- Closing the loophole on interest from off-shore bank accounts, requiring individuals and corporations to report income from off-shore accounts by imposing a 30 percent tax on foreign financial institutions that refuse to disclose information about Americans' offshore accounts. Treasury estimates we had lost \$70 billion each year in tax revenue on individuals (who hold roughly \$1 trillion offshore) and \$30 billion each year in tax revenue on corporations; and
- Eliminating an accounting trick used by investors to make tax bills on dividends disappear (the "dividends equivalent strategy") by treating swap payments as dividends. The Government Accountability Office estimates that we had lost billions in revenue each year on this accounting gimmick. [*New York Times*, [3/26/2010](#)]

The *Patient Protection and Affordable Care Act (P.L. 111-148)* closed the loophole in which corporations could "double-dip" by deducting the cost of retiree drug benefits for which they had already received a Medicare subsidy. For every \$100 companies spent on retiree drug benefits, they received \$28 in tax-free Medicare subsidy. But the company was then allowed to deduct the entire \$100 as a business expense - including the \$28 subsidy. After health care reform, companies can deduct only the \$72 unsubsidized cost (not the subsidy too). [*New York Times*, [4/5/2010](#)]

The *Health Care and Education Reconciliation Act (P.L. 111-152)* closed a tax loophole that allowed certain industries to receive an unintended biofuels tax credit.

By contrast, Republicans have served up tax breaks for the wealthiest Americans, at the expense of working- and middle-class Americans and future generations. The Bush tax cuts, enacted in 2001 and 2003, disproportionately benefited the wealthiest Americans and were justified with a series of disingenuous claims about their economic effectiveness. While having limited economic effect, the tax cuts led to massive increases in the national debt and created an enormous windfall for the very wealthiest Americans at the expense of the middle class and future generations. [Joint Economic Committee, [4/2008](#)]

In spite of Republicans' claims, the tax breaks were tilted toward the wealthy. President Bush claimed in his final State of the Union Address that his tax cuts were providing families with an average tax cut of \$1,800. In reality, however, only 16 percent of families could be expected to have an income tax as large as the "average" \$1,800 by 2010 and more than half of families would have income tax cuts totaling less than \$600. The richest one percent of families – with an average income of \$1.6 million – was on track to receive an average tax cut of \$92,000 in 2010. [Citizens for Tax Justice, [4/14/2008](#)]

Top earners were also projected to receive a disproportionate share of the total benefit of the Republican tax cuts. The top 20 percent of income earners will receive tax cuts totaling \$213 billion, representing nearly three-quarters of the total value of the benefits of the tax cuts. The middle 20 percent of income earners received a total value representing just one-tenth of the value accruing to the top-earners. [Citizens for Tax Justice, [9/8/2009](#)]

It has also been shown that, relative to households' income, the Republican tax cuts are worth more to high income households than to those in the middle of the income scale. Estimates by the Tax Policy Center show that in 2012, the tax cuts would boost the after-tax incomes of households with annual pre-tax incomes above \$1 million by 7.5 percent on average. Tax cuts would raise the after-tax incomes of middle income households, however, by only 2.3 percent. [Center on Budget and Policy Priorities, [3/28/2008](#)]

Republicans gave more to the wealthy with reductions in the capital gains and dividends rate reductions. Households in the top 20 percent of the income distribution were on track to receive 89 percent of the benefits of the capital gains and dividends rate reductions, for an average tax benefit of \$842 in 2010. The top one percent of households would receive 58 percent of the benefit of these reductions, for an average benefit of \$10,885. By contrast, households in the middle 20 percent of the income distribution were on track to receive just 2 percent of the benefit of these reductions, for an average tax reduction of just \$22. [Center on Budget and Policy Priorities, [8/7/2008](#)]

Republican tax cuts gave long term benefits to wealthy. The long term value of the Republican tax cuts are also skewed heavily toward the wealthy. The Center on Budget and Policy Priorities calculated that between 2009 and 2018, households in the top 20 percent of income would receive almost \$3 trillion in tax cuts. This represents nearly three-quarters of the total value of the tax cuts over the period. Those households with annual incomes of more than \$1 million would receive \$825 billion in tax cuts, representing one-fifth of the total value of the tax cuts over that period. The middle 20 percent of households, by contrast, would receive only eight percent of the total value of the tax cuts over this period. [Center on Budget and Policy Priorities, [3/28/2008](#)]

Endnotes

- ¹ Bruce Bartlett, "The Misinformed Tea Party Movement," *Forbes.com* (March 19, 2010), available at http://www.forbes.com/2010/03/18/tea-party-ignorant-taxes-opinions-columnists-bruce-bartlett_2.html
- ² Center on Budget and Policy Priorities, "The Skewed Benefits of the Tax Cuts," (March 28, 2008), available at <http://www.cbpp.org/cms/?fa=view&id=1146>.